

"Backed by field research and case studies, Hinterhuber and Liozu take complex pricing concerns, make them readily understandable, and propose solutions that managers can profitably implement... A must-read for today's results-driven sales professional!"

James A. Narus, Professor of Business Marketing, Wake Forest University, USA



PRICING AND THE SALES FORCE

**Edited by Andreas Hinterhuber
and Stephan M. Liozu**

PRICING AND THE SALES FORCE

Pricing and the Sales Force is the first book to link pricing strategy and sales force management. Pricing strategy is now well established as an important profit driver. Countless companies are now mastering price setting. But what about “price getting”? This is the domain of the sales force.

A selection of the world’s leading specialists explore different aspects of sales force and pricing strategy integration:

- introduction: overview on the state of the art;
- building key capabilities: best practices for building sales force capabilities in pricing and value quantification;
- engaging the sales force: driving organizational change processes with the sales force;
- designing effective selling processes: designing and implementing processes that enable superior performance;
- aligning sales force incentives and building the infrastructure: insights into how to align sales force incentive schemes; tools and instruments to enable the sales force to perform.

The third in Hinterhuber and Liozu’s successful pricing series, this book is essential reading for pricing strategy and sales scholars and practitioners.

Andreas Hinterhuber is a Partner of Hinterhuber & Partners (www.hinterhuber.com). He is also a Visiting Professor at USI Lugano, Switzerland and was acting chair and head of the Department of International Management at Katholische Universität Eichstätt-Ingolstadt, Germany.

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Backed by field research and case studies, Hinterhuber and Liozu take complex pricing concerns, make them readily understandable, and propose solutions that managers can profitably implement... A must-read for today's results-driven sales professional!

James A. Narus, *Professor of Business Marketing, Wake Forest University, USA*

A must-read for any company that creates customer value but has realized that the sales force needs to be able to quantify that value so customers are willing and able to pay for it.

Todd Snelgrove, *Chief Value Officer, SKF*

If you want (and you should) to make your sales force more strategic, reading *Pricing and the Sales Force* is an absolute MUST.

Bernard Quancard, *President and CEO, Strategic Account Management Association (SAMA)*

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*Edited by Andreas Hinterhuber
and Stephan M. Liozu*

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PART I

Introduction

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1

INTRODUCTION

Andreas Hinterhuber and Stephan M. Liozu

On moments of truth

Pricing decisions are usually the result of a chain of prior decisions, typically either horizontal chains, i.e. different departments within an organization (sales, marketing, finance, controlling, and general management), or vertical chains, i.e. different hierarchical levels. Selling is the final element in this chain. Rephrasing Raymond Corey and his comment about pricing as the missing “P” of marketing, we propose: selling is the moment of truth—all of pricing comes to focus in selling. Nowhere else is pricing excellence more visible or more absent than in selling.

Our pricing capability grid separates “price setting” from “price getting” (Hinterhuber and Liozu, 2012b). Selling is all about price getting (see [Figure 1.1](#)).

Price getting involve price negotiation, value communication, monitoring of net pocket prices, setting objectives for each element between list and pocket prices, restructuring of on-invoice and off-invoice discounts to drive desired customer behavior, growing and managing customers based on net pocket price profitability, rewarding the sales force for profits, and using tools to optimize price realization (Hinterhuber and Liozu, 2012b).

Managing pricing within the context of the sales force implies: developing capabilities in value-based selling (Töytäri, Rajala, and Alejandro, 2015), co-creating value with customers (Payne, Storbacka, and Frow, 2008), facilitating a culture conducive to long-term profitable relationships with customers, developing sales force confidence (Liozu, 2015), influencing customer perceptions of value and price without lowering the price (Hinterhuber, 2015), and building robust sales processes.

We are not able to cover all areas in this broad domain: even an edited volume needs a focus which reflects also the quality of submissions received. We have organized this book around five parts: (1) the introduction, (2) a section on sales force

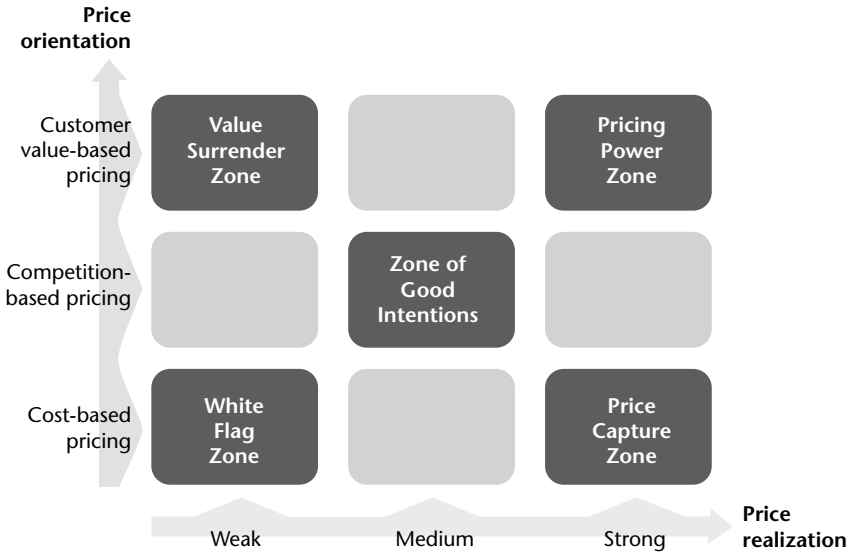


FIGURE 1.1 The pricing capability grid (Hinterhuber and Liozu, 2012b)

capabilities, (3) a section on engaging the sales force, (4) a section on sales processes, and (5) a section on sales force compensation and the supporting infrastructure.

The structure of the book

Part I—Introduction—contains the present introductory chapter by *Andreas Hinterhuber* and *Stephan Liozu*.

Part II—Building key capabilities—contains several chapters dealing with arguably the single most critical capability in business-to-business (B2B) selling: value quantification. In “Value quantification: the next challenge for B2B selling” *Andreas Hinterhuber* presents the result of an empirical survey on value quantification capabilities in European and US-based B2B companies. This chapter presents a process consisting of five key steps that can guide managers in industrial companies in value quantification. The process of value quantification is topic also of the next chapter: in “Interview with an expert: Mr Todd Snelgrove, Chief Value Officer, SKF” *Andreas Hinterhuber* and *Todd Snelgrove* discuss the organizational changes SKF has implemented to achieve what arguably can be considered best-in-class capabilities in value quantification. The interview explores sales force capabilities required for value quantification, it illustrates how an industrial sales force can change purchasing criteria of industrial buyers, and it presents suggestions on how to deal with purchasing situations where the selection criteria are primarily centered on price, such as LPTA (lowest price technically acceptable) procurement. The chapter “Shedding the commodity mindset” by *John E. Forsyth*, *Alok Gupta*, *Sudeep Halder*, and *Michael V. Marn* similarly explores the question of how an industrial sales force can survive, let alone

thrive, in an environment where products are treated as commodities and where price is apparently the only important purchase factor. The authors convincingly make the case for sound research on customer needs, customer segmentation, and product differentiation even in highly competitive markets. As a result, the authors suggest, companies can profitably develop different value propositions that meet the requirements of different market segments identified via needs-based market segmentation. Commodities, the authors state, do not exist. This chapter is a required reading for all those managers in B2B complaining that products cannot be differentiated and that competition is based solely on price.

Part III—Engaging the sales force—presents a series of chapters on the cultural and behavioral changes that need to take place in the sales force in order to drive profitability via pricing. In “Change management and pricing: getting the sales force on board” *Stephan M. Liozu* makes a strong case for treating a change in pricing strategy like a true organizational change management process requiring direction from the top, capabilities from within, peer group support from across the organization, and follow-up from supervisors. This process of change management is explored in-depth in the following chapter. In “Interview with an expert: Mr Marco Meyrat, Member of the Executive Board of Hilti Corporation” *Stephan M. Liozu* and *Marco Meyrat* discuss the technical, political, and cultural dynamics of the organizational change management related to pricing at Hilti. Managers of companies with currently weak capabilities in value-based pricing and value-based selling will benefit. In “Salespeople’s learning by doing and pricing strategy” *Qiang (Steven) Lu*, *Ranjit Voola*, and *Shahriar Akter* examine how learning by doing by sales managers facilitates the realization of profit and sales objectives. Using a Bayesian learning model the authors find that adaptive salespeople are more likely to outperform. The authors also suggest that sales managers learn more from failure than from success. In “How to get the sales team to embrace pricing improvement” *David Dvorin* presents a series of elements that need to be considered in order to obtain support for value-based pricing with the sales force. In “Having the value conversation” *Ronald J. Baker* suggests that the ability of the sales force to ask the right questions is a key requirement for value-based selling and value-based pricing. The author presents questions sales managers can use to uncover customer latent needs in order to change customer purchase criteria from price to value.

Part IV—Designing effective sales processes—presents a series of chapters all examining how companies can embed value-based selling and pricing within the sales force via robust processes that are, to a degree, independent of the whim of a single individual. In “Stop reacting to buyers’ price expectations—manage them” *Thomas T. Nagle* and *Joseph Zale* highlight the critical role that pricing policies play: pricing policies are required to manage customer expectations and to increase profits. Pricing, the authors argue, has to be managed by policy, not by exception: central functions, such as the pricing function, define criteria, i.e. the requirements that customers or orders must meet in order to qualify for a lower price; sales managers implement these policies, but they cannot not have primary responsibility in defining these policies in the first place. The authors recommend: the process for

developing good policies involves treating each request for a price exception as a request to create or to change a policy. In “Value-based selling: toward new practices of creating and sharing value” Pekka Töytäri and Risto Rajala present insights from a case study on value-based selling in industrial markets. Focus of their study are those processes and capabilities that are required to transform customer relationships from transactional to value-added exchange relationships that permit value-based selling. The authors suggest that a focus on value-based selling is especially effective during the early stages of the customer’s buying cycle. If there is no shared understanding of value, the authors argue, value-based selling is essentially pointless. A key finding is thus that value-based selling requires processes and capabilities that change customer purchase criteria, that develop a joint understanding of the value creation potential, and that achieve a shared vision of the way to realize these benefits. Sales processes are at the heart also of the subsequent chapter: in “Designing effective sales processes to drive profits via pricing” Tapio Nissilä presents a sales effectiveness framework that can enable companies to drive profits via value-based pricing strategies. Key elements of this framework are elements related to selling strategies (e.g. market segmentation, customer value proposition, pricing), elements related to sales management (e.g. sales method, account management, sales planning, performance management), elements related to sales execution (e.g. identification of value creation opportunities, opportunity qualification, opportunity development, proposal development, contract negotiation, delivery), and, finally, elements related to sales support (e.g. sales organization, compensation, capabilities, IT tools). This framework is comprehensive and will be useful to managers aiming to improve the effectiveness of existing processes of value-based selling. In “Breadth of a salesman” John R. DeVincentis and Neil Rackham remind us that the role of the sales force and, consequently, the role of selling processes depend on customer needs. Depending on customer needs, the sales force has to be structured either as transactional, consultative, or enterprise. Many companies, the authors warn, operate with a sales force operating in no man’s land: too expensive for transactional selling, but incapable of creating the value of consultative, let alone enterprise, selling. The authors highlight how the sales force can and should create value in these three selling approaches. Whether companies catering to all three customer segments need three separate sales forces is a question the authors do not answer conclusively. In “How to optimize collaboration between the sales organization and pricing management” Harry Macdivitt presents a series of steps to facilitate the collaboration between the pricing function and the sales force, two organizational units that are notoriously at cross purposes. The author suggests that communication and collaboration are important.

Part V—Aligning sales force incentives and building the infrastructure—examines the supporting elements that are required in the context of the sales force and pricing. One of these elements is sales force compensation. In “Pricing delegation and sales force compensation” Evandro Pollono provides a framework that helps to decide between centralization and decentralization of pricing authority and between bonus and commission payments. In addition, the author suggests, high-performing and low-performing sales representatives need to be compensated

differently: top performers, the author argues, should not have performance caps; laggards, by contrast, benefit from social pressure and should be rewarded by a quarterly payout. In “Delegating pricing authority to the sales force: the need for a turnaround in research and practice” *Carmen Balan* presents a comprehensive summary of the current literature on price delegation. Of particular interest is a summary of conditions that favor the delegation or centralization of pricing authority: this framework allows managers to amplify or restrict pricing authority in function of, e.g. information asymmetry, prospecting strategy, agency costs, competitive intensity, sales manager risk aversion, and other factors. In this context, measuring the performance of the sales force is important: in “Using mix measurement to drive profitable sales growth” *Dev Tandon* suggests to use mix analysis to decompose annual variations in gross margins realized by the individual sales representative. This analysis, the author suggests, can help to understand the effect that changes in price, raw material costs, product portfolio composition, and cost reductions have on gross margins. In “The fast-changing intersection of price and value: a smarter way to think about customer perceptions” *Jeff Robinson* suggests that sales managers focus on a limited number of capabilities in order to withstand customer price pressure. Value communication is one of these critical capabilities.

This book in context

This book is the third volume in a series of edited volumes on pricing. Our intent is to select topics in the area of pricing that are relevant to practicing managers, but are under-researched: *Innovation in Pricing* (Hinterhuber and Liozu, 2012a) was driven by the observation that innovation in most companies is interpreted narrowly and that this narrow interpretation of innovation potentially suppresses an important source of competitive advantage: for most companies innovation is product or business model innovation. In this book we argue that innovation in pricing may be a company’s most powerful, yet least exploited, source of competitive advantage. The *ROI of Pricing* (Liozu and Hinterhuber, 2014) was driven by the observation that the pricing function must, on the one side, contribute to short- and long-term results, and must also document its impact on the bottom line. This book attempts to define the concept of pricing return on investment (ROI) highlighting how the pricing function can increase performance and substantiate its own contribution. The present volume *Pricing and the Sales Force* is driven by a curiosity to understand the final element in the chain of decisions that lead to observed market prices.

All three edited volumes are supported by empirical research leading to subsequent journal publications (Hinterhuber and Liozu, 2014, 2015; Liozu, 2015). Pricing is a fascinating, dynamic research field—what next? Currently on our research agenda is the examination of behavioral and psychological aspects of pricing decisions (Hinterhuber, 2015; Liozu, 2015). In the future, as guest editors of a special issue in the *Journal of Business Research*, we will examine the micro-foundations of pricing, i.e. the relationship between psychological traits of pricing decision-makers and outcomes at the organizational level.